

WEXPRO COMPANY

79 SOUTH STATE STREET · P.O. BOX 11070 · SALT LAKE CITY, UTAH 84147 · 801 530-2700

R. M. KIRSCH
PRESIDENT

December 14, 1983

Wexpro Settlement Agreement Monitors

Gentlemen:

RE: Delivery Point at the Butcher Knife and Church Buttes Fields
Sweetwater County, Wyoming

Wexpro Company respectfully requests concurrence from the Hydrocarbon Monitor and Accounting Monitor to Wexpro's interpretation of the delivery points in the captioned fields.

FACTS

The Butcher Knife Springs field consists of wells 1, 2, 4, 5 and 6 and a Butcher Knife sweetening plant. Wells 1, 2, 4 and 5 produce sour gas thus necessitating sweetening and well No. 6 produces sweet natural gas and oil. Attached Exhibits 1 and 2 are maps showing the well facilities and the related production equipment, plants and laterals.

The Church Buttes field consists of wells 1, 2, 3, 4, 7, 8, 9, 10, 11, 13, 16, 19, 20, 21, 22, 25, 26, 27, 28, 29 and 30 at the time of the execution of the Wexpro Settlement Agreement and also the Church Buttes absorption plant.

Gathering laterals are installed in both fields and a collection lateral No. 703 runs from the Butcher Knife sweetening plant to the Church Buttes absorption plant.

PROBLEM

Because of the joint ownership with others of many of the facilities and the overlapping necessity of two sweetening and absorption plants, Wexpro desires confirmation from the Monitors of the appropriate delivery point in the Butcher Knife and Church Buttes fields. Wexpro also seeks confirmation of the appropriateness of Wexpro's undertaking of operating responsibilities and of investment in post-July 1981 facilities upstream from the delivery point.



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DEC 09 1987

DIVISION OF PUBLIC UTILITIES

Wexpro Settlement Agreement Monitors

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WEXPRO AGREEMENT LANGUAGE

With respect to the production of hydrocarbons from certain natural gas wells and reservoirs designated "prior Company wells," 1/ and "productive gas reservoirs," 2/ the Wexpro Agreement provides:

Wexpro will own all operating rights and will be the operator of all facilities related to [Account 101/105] leaseholds. Wexpro will fund and drill or cause to be funded and drilled all necessary and appropriate development wells on these properties and provide the necessary facilities which in its opinion will be reasonably and prudently necessary to efficiently produce the hydrocarbons in the productive gas reservoirs.

Wexpro Agreement Section III-2(b).

The Agreement further provides:

Although Wexpro will have no ownership in the natural gas, natural gas liquids or oil produced from productive gas reservoirs, as operator it will bill the Company for the services it performs and for the use of the facilities it has installed to produce the Company's natural gas, natural gas liquids and oil.

Wexpro Agreement Section III-5(a).

The operator service fee provisions of the Wexpro Agreement set forth in Exhibit E provide that Wexpro will be reimbursed for its operating expenses including:

Reasonable and necessary operating expenses incurred by Wexpro and allocated to the production, gathering, treatment and disposition of hydrocarbons.

Wexpro Agreement, Exhibit E, Para. 1.

1/"Prior Company well" is defined as "A well completed on or before July 31, 1981, and capitalized in the Company's utility accounts on that date. All prior Company wells are identified and listed on Schedule 3(b)." Wexpro Agreement, Section I-22.

2/"Productive gas reservoir" is defined as "A portion of a pool underlying an Account 101/105 leasehold or a transferred leasehold into which a prior Company well was completed on or before July 31, 1981. All productive gas reservoirs are identified on Schedule 3(a)." Wexpro Agreement, Section I-25.

Among the wells designated prior Company wells under the terms of the Wexpro Agreement were Butcher Knife wells numbered 1, 2, 4, 5 and 6 and Church Buttes wells numbered 1, 2, 3, 4, 7, 8, 9, 10, 11, 13, 16, 19, 20, 21, 22, 25, 26, 27, 28, 29 and 30.

Wexpro Agreement, Schedule 3(b).

The Wexpro Agreement defines "well" as follows:

The well bore and all underground and surface materials and facilities installed in connection with drilling into the earth's surface for the production or injection of hydrocarbons and substances. The term "well" includes all the appurtenant facilities.

Wexpro Agreement, Section I-14.

The appurtenant facilities referred to above include:

Those facilities, downstream from the well head, to and including the delivery point, that are necessary to make the products acceptable for delivery including, but not limited to, compression, transportation, gathering, separation, treating and certain processing facilities.

Wexpro Agreement, Section I-15.

The "delivery point" is defined as:

That point under standard industry practice, at which a purchaser of oil or natural gas liquids or natural gas takes delivery from the producer. This will generally be (i) at the inlet side of the dehydration unit for gas deliveries and (ii) at the outlet side of tankage or other storage facilities for oil or natural gas liquid deliveries.

Wexpro Agreement, Section I-16.

Concerning post-July 1981 investments in productive gas reservoirs or commercial development gas wells, Section III-4 of the Agreement provides:

Any investment made in the productive gas reservoirs after July 31, 1981, and in commercial development gas wells (including appurtenant facilities), will not be capitalized into the Company's utility accounts but will be capitalized by Wexpro and Wexpro will be compensated for these investments by the Company as provided in Section III-5. Necessary facilities installed downstream from the delivery point will be capitalized in the Company's utility account.

The Wexpro Agreement also states:

The delivery of natural gas and natural gas liquids produced under the provisions of this Article III will be at the delivery point (defined in Section I-16), and all costs of receiving, processing and gathering the natural gas and natural gas liquids and all the necessary investment at and downstream from such a point will be the responsibility of the Company.

Wexpro Agreement, Section III-7. 3/

BUTCHER KNIFE AND CHURCH BUTTES

With respect to the Butcher Knife sweetening plant, it has been determined by Wexpro that additional investments are necessary to the gas treatment facilities. The plant provides treatment of sour gas produced from five wells including four of the Company's Butcher Knife wells. Through five separate gathering pipe lines, sour oil and gas production is transported to the Butcher Knife plant where the liquids and gas are separated and then metered at five separate inlet meters. These inlet meters are points where the third party unit participants deliver possession of gas production to Mountain Fuel (or its designate, Mountain Fuel Resources, Inc., "Resources") for processing. The inlet meters are used to allocate production proceeds at the tail gate of the plant.

Under a typical gas purchase agreement involving sour gas at the Butcher Knife plant, the following definition for the "delivery point" of purchased gas is found:

The delivery point of gas deliverable hereunder shall be at a central delivery point located on the discharge side of buyer's processing plant and/or at such other point(s) as may be mutually designated in writing by the parties hereto. The volumes of gas purchased hereunder will be sellers pro-rata share of the total

3/With respect to natural gas produced from prior Wexpro wells and productive oil reservoirs, the Wexpro Agreement similarly provides:

The delivery of natural gas produced under the provisions of this Article II will be at the delivery point (defined in Section I-16), and all costs of receiving the natural gas and all the necessary investment at and downstream from such a point will be the responsibility of the Company.

Wexpro Agreement, Section II-10.

volume of gas delivered to the inlet of Buyer's processing plant. Title to and ownership of such gas shall pass to an absolutely vest in Buyer at the prescribed point(s) of delivery. 4/

Aminoil USA, Inc., Morgan-Gas
Purchase Agreement dated March 4,
1980, Section VII-1.

After Resources takes title to the purchased gas and possession of Mountain Fuel gas at the discharge side of the Butcher Knife plant, the gas is commingled with gas from Butcher Knife well No. 6 and from the Henry Unit and the Hank's Hollow area and transported through lateral No. 703 to Church Buttes.

Butcher Knife Well No. 6 and these two other areas have their own meters and "delivery points" at the inlet side of the respective dehydration units. Gas production from lateral No. 703 is commingled with Church Buttes gas production and then processed through the Church Buttes absorption plant. Here additional processing removes some of the heavier hydrocarbons from the Butcher Knife gas. The "delivery point" for Church Buttes purchased gas has been designated at the discharge side of the Church Buttes plant under the Church Buttes gas purchase agreements. Gas is then transported to Resources' main transmission lines for further transportation and ultimate distribution.

4/The language of one of the typical gas and condensate processing contracts states:

The point of delivery of gas and condensate per measurement, sampling and for allocation of stabilized plant condensate purposes shall be at the measurement stations installed by Processor on the overhead gas discharge and bottom condensate, respectively, of each of the producers' primary separators.

Redelivery of residue gas by Processor to Producer shall be at the residue gas measurement station installed by Processor at the discharge side of the plant.

Aminoil USA, Inc., Gas and Condensate
Processing Contract, dated March 4,
1980, Section III-3, 4; Yates Petro-
Jeum Corporation, Gas and Condensate
Processing Contract, dated August 21,
1979, Section III-3, 4.

While this language accurately describes the delivery and processing responsibilities in a producer/processor relationship, it does not directly deal with "that point . . . at which a purchaser of oil or natural gas liquids or natural gas takes delivery from the producer."

A geographic map of the Church Buttes and Butcher Knife areas has been prepared and amplified with additional information concerning the physical facilities which are located in the area showing the wells, separation, dehydration, sweetening and absorption facilities. The flow of gas, whether it be Company-owned production or gas purchased from other sources is also shown. With respect to purchased gas, the delivery points specified in each of the pertinent gas purchase agreements for such gas purchases are shown.

Delivery Point at the Outlet of the Butcher Knife Plant.

The delivery point for Company-owned gas production coincides with the delivery point for purchased gas production. ^{5/} The line drawn between Wexpro responsibilities and Mountain Fuel responsibilities is consistent regardless of the source of gas. The delivery point also coincides with the gas purchase agreements for gas purchases from the Butcher Knife field. Thus, the delivery point determination in the Butcher Knife situation can be objectively made by looking to the delivery point in co-producer gas purchase agreements.

CONCLUSION

The Wexpro Agreement assigns Wexpro the operating and investment responsibilities for facilities needed in the production of Company-owned hydrocarbons from prior Company wells for any appurtenant facilities that lie upstream from the "delivery point." The Agreement defines that "delivery point" as being the point under standard industry practice at which a purchaser takes delivery of gas production from the producer. The delivery points which already exist with respect to gas being purchased from co-producers are the best evidence of where the delivery points defined in the Wexpro Agreement should be.

As applied to the Butcher Knife/Church Buttes area, this determination of the "delivery point" would mean that the delivery point for Company-owned gas processed through the Butcher Knife plant would be at the outlet of that

^{5/}The language of a typical gas purchase agreement in the Butcher Knife area involving sweet gas, not requiring processing or treatment through the Butcher Knife plant, states:

The delivery point for gas deliverable hereunder shall be located on the inlet side of the dehydration unit installed by Buyer at the well head

Aminoil, USA, Inc., Dakota-Gas
Purchase Agreement, dated August 29,
1979, Section VII-1.

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plant. Gas produced in the Church Buttes area would have a delivery point at the outlet of the Church Buttes plant. The resulting assignment of operating responsibilities between Wexpro and Mountain Fuel pursuant to the Wexpro Agreement would mean that Wexpro would assume initial responsibility for the operation of the Butcher Knife and Church Buttes plants. The responsibility for new investments in sweetening facilities at the Butcher Knife plant also falls to Wexpro.

The language used in such gas purchase agreements fits the definition of "delivery point" as used in the Wexpro Agreement and constitutes one of the examples used in defining delivery point.

Sincerely,



ckb

APPROVED this _____ day of _____, 1985.

BALL ASSOCIATES, LTD.

PRICE WATERHOUSE

By *Dando Ball*

Date *85-9-25*

By *Hunt Watson*

Date *October 29, 1985*

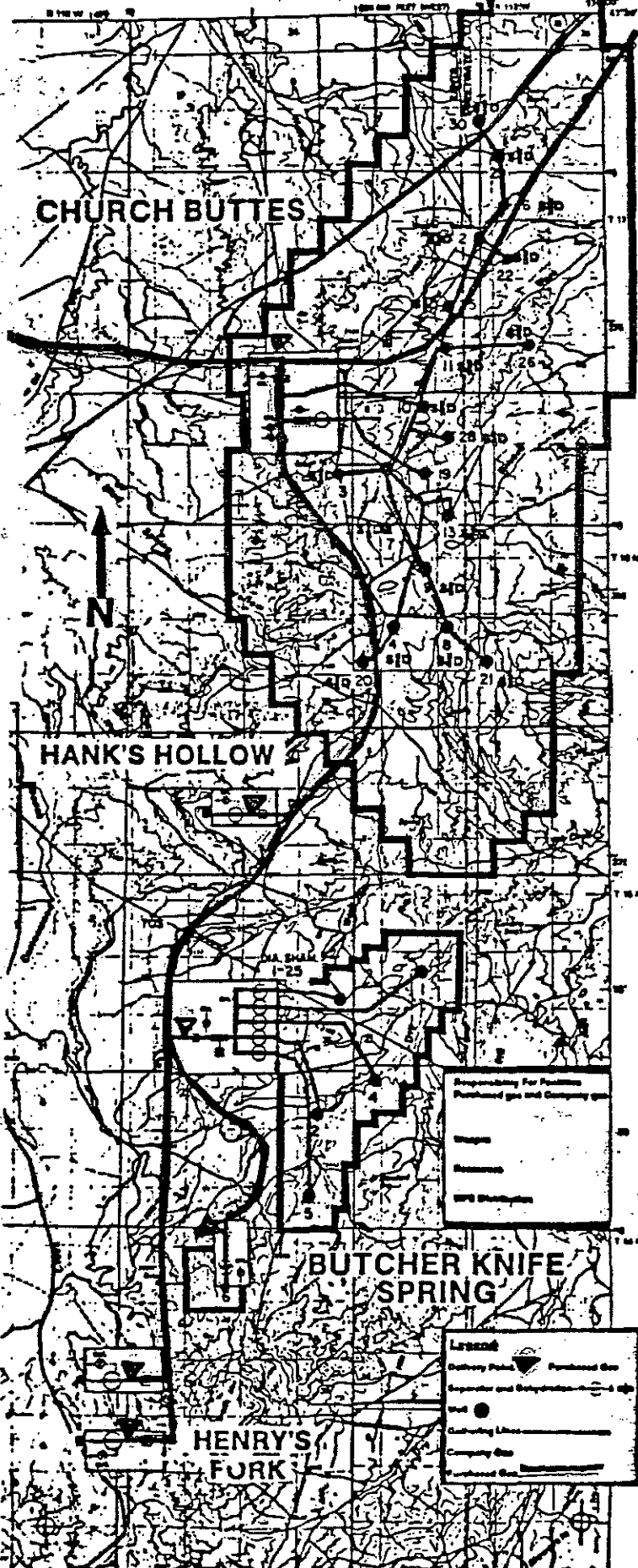
UTAH DIVISION OF PUBLIC UTILITY

STAFF OF WYOMING PUBLIC SERVICE
COMMISSION

By _____
Date _____

By _____
Date _____

80X60 MINUTE SERIES (TOPOGRAPHIC)



COMPANY OWNED GAS PRODUCTION AND PURCHASED GAS PRODUCTION WITH PURCHASED GAS DELIVERY POINTS.

CHURCH BUTTES

HANK'S HOLLOW

BUTCHER KNIFE SPRING

HENRY'S FORK

Responsibility For Position
Purchased gas and Company gas

Legend
Delivery Point (diamond symbol) Purchased Gas
Separator and Storage (circle symbol) Company Gas
Company Gas
Purchased Gas